

TRANSACTION SYSTEMS ARCHITECTS INC
Form DEF 14A
January 19, 2001

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /x/
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Check the appropriate box:

- // Preliminary Proxy Statement
- // Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- /x/ Definitive Proxy Statement
- // Definitive Additional Materials
- // Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

TRANSACTION SYSTEMS ARCHITECTS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- /x/ No fee required
- // Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
 - (1) Title of each class of securities to which transaction applies:

 - (2) Aggregate number of securities to which transaction applies:

 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

 - (4) Proposed maximum aggregate value of transaction:

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

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TRANSACTION SYSTEMS ARCHITECTS, INC.

January 19, 2001

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders that will be held on Tuesday, February 20, 2001 at 10:00 A.M., at the offices of the Company at 230 South 108th Avenue, Omaha, Nebraska.

Details of the business to be conducted at the Annual Meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

Please use this opportunity to take part in the affairs of the Company. Whether or not you plan to attend the meeting, please complete, sign, date and return the accompanying proxy in the enclosed postage-paid envelope or vote electronically via the Internet or telephone.

On behalf of the Board of Directors, I would like to express our appreciation for your interest in the Company.

Sincerely,

William E. Fisher
*Chairman of the Board of Directors
and Chief Executive Officer*

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
to be held on February 20, 2001

The Annual Meeting of Stockholders of Transaction Systems Architects, Inc. (the "Company") will be held at the offices of the Company at 230 South 108th Avenue, Omaha, Nebraska, on February 20, 2001, at 10:00 A.M., for the following purposes:

1. To elect six directors to hold office until the next Annual Meeting of Stockholders;
2. To vote upon a proposal to amend the Company's 1999 Stock Option Plan to increase the number of shares of Class A Common Stock for which options may be granted under such plan;
3. To vote upon a proposal to amend the Company's 1999 Employee Stock Purchase Plan to increase the number of shares of Class A Common Stock which may be sold under the plan;
4. To consider and vote upon a proposal to ratify the appointment of Arthur Andersen LLP as the Company's independent auditors; and
5. To transact such other business as may properly come before the Meeting or any adjournment of the Meeting.

The Board of Directors has fixed the close of business on January 11, 2001, as the record date for determining the stockholders entitled to notice of and to vote at the Meeting and any adjournment of the Meeting. Each share of the Company's Class A Common Stock and each TSA Exchangeco Limited Exchangeable Share is entitled to one vote on all matters presented at the Annual Meeting.

ALL HOLDERS OF THE COMPANY'S CLASS A COMMON STOCK (WHETHER THEY EXPECT TO ATTEND THE ANNUAL MEETING OR NOT) ARE REQUESTED TO PROMPTLY COMPLETE, DATE, SIGN, AND RETURN THE PROXY CARD ENCLOSED WITH THIS NOTICE OR VOTE VIA THE INTERNET OR TELEPHONE. ALL HOLDERS OF TSA EXCHANGE CO LIMITED EXCHANGEABLE SHARES (WHETHER THEY EXPECT TO ATTEND THE ANNUAL MEETING OR NOT) ARE REQUESTED TO PROMPTLY COMPLETE, DATE, SIGN, AND RETURN THE VOTING INSTRUCTION CARD ENCLOSED WITH THIS NOTICE TO THE TRUSTEE, WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION.

David P. Stokes
Secretary

January 19, 2001

TRANSACTION SYSTEMS ARCHITECTS, INC.

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
to be held on February 20, 2001

This Proxy Statement is being furnished in connection with the solicitation by and on behalf of the Board of Directors of Transaction Systems Architects, Inc. (the "Company" or "TSA") of proxies to be used at the Annual Meeting of Stockholders of the Company (the "Annual Meeting") to be held on February 20, 2001, and any postponement or adjournment thereof. A copy of the Company's Annual Report to Stockholders, including the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, which includes the Company's financial statements as of and for the year ended September 30, 2000, accompanies this Proxy Statement. **Stockholders may obtain a copy of the Company's Annual Report on Form 10-K and a list of the exhibits thereto without charge by written request to Investor Relations, 224**

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South 108th Avenue, Omaha, Nebraska 68154. This Proxy Statement and the accompanying form of proxy are being mailed to holders of the Company's Class A Common Stock and this Proxy Statement and the accompanying form of voting instruction card are being mailed to holders of TSA Exchangeco Limited's Exchangeable Shares on or about January 19, 2001.

Proxy Solicitation

The shares of the Company's Class A Common Stock, \$.005 par value ("Common Stock") represented by the proxies received pursuant to this solicitation and not revoked will be voted at the Annual Meeting. A holder of Common Stock ("Common Stockholder") who has given a proxy may revoke it prior to its exercise by giving written notice of revocation to the Secretary of the Company or by giving a duly executed proxy bearing a later date. Attendance in person at the Annual Meeting does not itself revoke a proxy; however, any Common Stockholder who does attend the Annual Meeting may revoke a proxy previously submitted by voting in person. Subject to any such revocation, all Common Stock represented by properly executed proxies will be voted in accordance with specifications on the proxy. If no such specifications are made, proxies will be voted FOR the election of the six nominees for director listed in this Proxy Statement, FOR approval of the amendment to the Transaction Systems Architects, Inc. 1999 Stock Option Plan, FOR approval of the amendment to the Transaction Systems Architects, Inc. Employee Stock Purchase Plan, FOR ratification of the appointment of Arthur Andersen LLP as the Company's independent auditors for the September 30, 2001 fiscal year, and, as to any other matter that may be brought before the Annual Meeting, in accordance with the judgment of the person or persons voting the same.

Common Stockholders whose shares of Common Stock are registered directly with the Company's transfer agent, Wells Fargo Bank Minnesota, National Association, may vote electronically via the Internet or telephone. Such Common Stockholders should refer to the enclosed form of proxy for instructions on voting via the Internet or telephone. The Internet voting facilities for Common Stockholders of record will close at 12:00 p.m. Omaha time on February 19, 2001, and the telephone voting facilities for Common Stockholders of record will close at 11:00 a.m. Omaha time on February 19, 2001. Common Stockholders whose shares are registered in the name of a broker or bank should refer to the information forwarded by the broker or bank to determine if Internet or telephone voting is available to them.

Exchangeable Shares of TSA Exchangeco Limited, a Nova Scotia limited company and subsidiary of the Company ("Exchangeable Shares"), are designed to have economic rights equivalent to the Common Stock, and they can be exchanged on a one-for-one basis into shares of Common Stock. The

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Exchangeable Shares were issued pursuant to the Company's acquisition of MessagingDirect Ltd. Holders of Exchangeable Shares ("Exchangeable Shareholders") may vote at the meeting by instructing Wells Fargo Bank Minnesota, National Association, the Trustee of the Trust created for the benefit of Exchangeable Shareholders, how to vote their Exchangeable Shares. Pursuant to the terms of the Trust, the Trustee holds a share of Special Preferred Voting Stock of the Company that entitles it to cast the number of votes equal to the number of Exchangeable Shares outstanding voting as a single class with the Common Stock. Pursuant to the terms of the trust, however, the Trustee will only vote, or grant proxies to vote, pursuant to the instructions of the Exchangeable Shareholders and will not vote, or grant proxies to vote, with respect to any Exchangeable Shares for which it has not received instructions from the Exchangeable Shareholder. An Exchangeable Shareholder may also instruct the Trustee to give a proxy to a person designated by the Exchangeable Shareholder, to grant a proxy to a designated representative of the management of the Company, or to grant a proxy to the Exchangeable Shareholder so that the Exchangeable Shareholder may attend the meeting and vote in person. Such proxies granted by the Trustee to a representative of management will only be voted with respect to the election of directors, amendment of the 1999 Stock Option Plan, amendment of the 1999 Employee Stock Purchase Plan, and appointment of the independent auditors in accordance with the instructions of the holders of the Exchangeable Shares as to such matters. As to any other matter that may come before the Annual Meeting, such proxies will authorize the person or persons voting the same to vote in accordance with their judgment. An Exchangeable Shareholder may revoke or amend instructions to the Trustee by giving written notice of revocation to the Trustee or by giving duly executed instructions bearing a later date. In order for instructions or revocations to be binding on the Trustee, they must be received by the Trustee no later than the close of business on February 16, 2001. Exchangeable Shareholders who are personally present at the Annual Meeting and submit identification satisfactory to the Trustee's representative at the meeting, and who either submits a written revocation of any previous instructions or have not previously given the Trustee instructions, may also receive a proxy from the Trustee to vote personally at the meeting. Exchangeable Shareholders should use the accompanying form of voting instruction card to instruct the Trustee.

The Company will bear the expense of preparing, printing and mailing this Proxy Statement and proxies solicited hereby, and will reimburse banks, brokerage firms and nominees for their reasonable expenses in forwarding solicitation materials to beneficial owners of shares held of record by such banks, brokerage firms and nominees. The Company has retained Wells Fargo Bank Minnesota, National Association, to assist in the solicitation of proxies at a cost of approximately \$20,000 plus normal out-of-pocket expenses.

Outstanding Shares and Voting Rights

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Only stockholders of record at the close of business on January 11, 2001 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, there were 34,937,171 shares of Common Stock, issued and outstanding, excluding 1,476,145 shares of Common Stock held as treasury stock by the Company and 1,410,942 Exchangeable Shares issued and outstanding. The shares of Common Stock held as treasury stock are not entitled to be voted. Each holder of a share of Common Stock or an Exchangeable Share is entitled to one vote per share for the election of directors and on all other matters to be voted on by the Company's stockholders. Holders of Common Stock or Exchangeable Shares may not cumulate their votes in the election of directors. Unless the context requires otherwise, all references to "shares" or "stockholders" in this Proxy Statement and at the Annual Meeting include all shares of Common Stock and all Exchangeable Shares entitled to vote at the Meeting and the holders thereof.

The presence in person or by proxy at the Annual Meeting of the holders of a majority of the issued and outstanding shares shall constitute a quorum. Election of a director requires affirmative votes of the holders of a plurality of the shares present in person, or represented by proxy, at a meeting (at which a

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quorum is present). Therefore, the six persons receiving the greatest number of votes shall be elected as directors. Since only affirmative votes count for this purpose, withheld votes will not affect the outcome, except that they will count in determining the presence of a quorum.

With respect to the amendment to the 1999 Stock Option Plan and the amendment to the 1999 Employee Stock Purchase Plan and ratification of the appointment of independent auditors, a stockholder may mark the accompanying form of proxy or voting instruction card to (i) vote for the matter, (ii) vote against the matter or (iii) abstain from voting on the matter. Assuming that a quorum is present at the Annual Meeting, the affirmative vote of a majority of the shares represented at the Annual Meeting and entitled to vote on the matter is required for approval of the amendment to the 1999 Stock Option Plan and the amendment to the 1999 Employee Stock Purchase Plan, and the affirmative vote of a majority of the shares represented at the Meeting and voting on the matter is required for ratification of the appointment of independent auditors. Proxies or voting instruction cards marked to abstain from voting with respect to the amendment to either the 1999 Stock Option Plan or the amendment to the 1999 Employee Stock Purchase Plan will have the legal effect of voting against such matter, and with respect to the ratification of independent auditors will have the effect of being represented for quorum purposes but not voted. The shares represented by broker proxies which are not voted with respect to the amendment to the 1999 Stock Option Plan, the amendment to the 1999 Employee Purchase Plan, or the ratification of the appointment of independent auditors will be considered represented at the Meeting and entitled to vote only as to those matters actually voted. The Exchangeable Shares represented by proxies granted by the Trustee to a representative of management which are not voted with respect to the election of directors, the amendment to the 1999 Stock Option Plan, the amendment to the 1999 Employee Stock Purchase Plan, or the ratification of the appointment of independent auditors will be considered represented at the Meeting and entitled to vote only as to those matters actually voted.

1. ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of six members. The Board of Directors has nominated the following persons, each of whom is currently serving as a director, for election as directors to serve until the 2002 Annual Meeting of Stockholders and thereafter until their respective successors are duly elected and qualified. The Company expects that each of the nominees will be available for election, but if any of them is not a candidate at the time the election occurs, it is intended that such proxy will be voted for the election of another nominee to be designated by the Board of Directors to fill any such vacancy.

Nominees

William E. Fisher. Mr. Fisher has been a Director and Chairman of the Board of the Company since its formation in 1993. Mr. Fisher has been the Chief Executive Officer of the Company since May 2000 and also served as the Company's President and Chief Executive Officer from November 1993 to November 1999. From 1987 to 1999, Mr. Fisher served in various capacities at ACI Worldwide Inc (a subsidiary of the Company, "ACI"), including Vice President of Financial Systems, Senior Vice President of Software and Services, Executive Vice President, Chief Operating Officer, President and Chief Executive Officer. Prior to joining ACI, he held the position of President for the Government Services Division of First Data Resources ("FDR"), an information processing company. Mr. Fisher is a director of West Corporation (Nasdaq: WSTC) and The TriZetto Group, Inc. (Nasdaq: TZIX). West Corporation is a provider of outsourced customized telecommunications-based services, inbound operator services, automated voice response services and outbound direct teleservices. The TriZetto Group is a provider of vertical Internet-enabled application services and business portals for the healthcare industry. Mr. Fisher is 54 years old.

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Gregory J. Duman. Mr. Duman has been a Director of the Company since March 2000. Mr. Duman is currently the Chief Financial Officer of Artios, Inc., a privately-held company providing business-to-business electronic exchange services. Prior to joining Artios, Inc. in May 2000,

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Mr. Duman served as Vice President and Chief Financial Officer of the Company from its formation in 1993 to September 1998, and as the Company's Executive Vice President Lines of Business from September 1998 to April 2000. After joining ACI in 1983 as Director of Administration, Mr. Duman became ACI's Controller in 1985, and its Vice President and Chief Financial Officer in 1991. Prior to joining ACI, Mr. Duman worked for Authur Andersen & Co. as a certified public accountant. Mr. Duman is a director of Digital Courier Technologies, Inc. (Other OTC: DCTI) and Transgenomic, Inc. (Nasdaq: TBIO). Digital Courier provides software and systems to businesses, Internet merchants, and financial institutions. Transgenomic provides research tools that enable researchers to discover and understand variations in the human genetic code. Mr. Duman is 45 years old.

Charles E. Noell, III. Mr. Noell has been a Director of the Company since January 1994. Mr. Noell is the Managing Partner of JMI Equity Fund, L.P. ("JMI"), a private investment fund. Prior to joining JMI in 1992, Mr. Noell served at various positions at Alex. Brown & Sons Incorporated, including Managing Director and head of the Technology Group. Mr. Noell is a director of Peregrine Systems, Inc. (Nasdaq: PRGN) and NEON Systems, Inc. (Nasdaq: NESY). Peregrine is a provider of enterprise-wide infrastructure management software. NEON is a provider of enterprise access and integration software. Mr. Noell is 49 years old.

Jim D. Kever. Mr. Kever has been a Director of the Company since November 1996. Mr. Kever is a director of Quintiles Transnational Corp. (Nasdaq: QTRN), which provides testing and marketing services to help pharmaceutical companies commercialize their products. Mr. Kever is currently President and Chief Executive Officer of Envoy Corporation, which became a wholly-owned subsidiary of Quintiles Transnational Corp. in March 1999. Envoy provides electronic processing services, primarily to the healthcare industry. He joined Envoy as Treasurer and General Counsel in October 1981. Mr. Kever has been a director of Envoy since 1981, and from 1984 until 1995, he was Executive Vice President of Envoy. Before joining Envoy, he was employed by Datanet, a corporation providing pharmaceutical software. From 1977 until 1979, Mr. Kever was with the certified public accounting firm of Peat, Marwick, Mitchell & Co. in the tax division. Mr. Kever is 48 years old.

Larry G. Fendley. Mr. Fendley has been a Director of the Company since November 1996. Mr. Fendley is a consultant to eOnline, inc., an SAP-Certified Application Service Provider. From April 1999 until April 2000, Mr. Fendley was the Senior Vice President of Operations of eOnline, inc. Mr. Fendley also provides consulting services to transaction processing and software companies. Until mid-1998, he was Executive Vice President Product Delivery Services for CSG Systems, Inc., a subsidiary of CSG Systems International, Inc. (Nasdaq: CSGS). Prior to joining CSG Systems in 1996, he was with Citibank, N.A. for ten years, most recently as General Manager of Information Services for the European, North American Card Products Division. Prior to Citibank, Mr. Fendley was with FDR as Vice President Computer Technology and with Motorola in the Communications Products Division as International Operations Manager. Mr. Fendley is 59 years old.

Roger K. Alexander. Mr. Alexander has been a Director of the Company since February 2000. Since January 2000, Mr. Alexander has been a partner in the London office of Edgar, Dunn & Company, a management consulting firm based in San Francisco. From 1994 through 1999, Mr. Alexander was Managing Director of Barclays Bank Emerging Markets Group based in London, England. From 1968 to 1994, he held various operations, systems development, and management positions at Barclays Bank. Mr. Alexander is 52 years old.

Information Regarding the Board and its Committees

Each non-employee Director receives a \$3,125 fee per quarter for his services. Mr. Fisher does not receive any compensation for his services as a director. All directors are reimbursed for expenses incurred in connection with attendance at Board of Director and committee meetings.

During fiscal 2000, there were four meetings of the Board of Directors. Each incumbent director who was a member of the Board of Directors during fiscal year 2000 attended all of the meetings except Messrs. Kever and Noell, each of whom attended three of the four board meetings, and Mr. Duman attended one of the two meetings since his appointment to the Board of Directors.

Each of Messrs. Kever and Fendley were granted a stock option for 20,000 shares of Common Stock upon their respective appointments to the Board of Directors in November 1996. These options were granted under the Transaction Systems Architects, Inc. 1996 Stock Option Plan at an exercise price of \$33.25 per share, which was the market price of the Common Stock on that day. Mr. Alexander was granted a stock option for 20,000 shares of Common Stock upon his appointment to the Board of Directors in February 2000. Mr. Noell was granted a stock option for 20,000 shares of Common Stock in January 2000. These options were granted to Messrs. Alexander and Noell under the Transaction Systems Architects, Inc. 1996 Stock Option Plan at exercise prices of \$25.938 and \$23.375 per share, respectively, which were the market prices of the Common Stock on the respective grant dates. Additionally, each of Messrs. Kever, Fendley, Alexander, and Noell receive options for 4,000 additional shares of Common Stock on the anniversary of their respective elections to the Board except for Mr. Noell, who receives options for 4,000 additional shares of Common Stock on the anniversary of his initial grant of 20,000 shares of Common Stock in January 2000, in each of the four succeeding years so long as they remain a member of the Board of Directors on such anniversary dates. Accordingly, in November 1997, 1998, 1999, and 2000, each of Messrs. Kever and Fendley were granted stock options for 4,000 shares of Common Stock at an exercise price per share of \$39.125 for options granted in 1997, \$36.375 for options granted in 1998, \$31.9375 for options granted in 1999, and \$13.875 for options granted in 2000, and in January 2001, Mr. Noell was granted a stock option for 4,000 shares of Common Stock at an

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exercise price of \$11.8125 per share. Vesting of these options is 20% per year at the end of each of five years. Mr. Duman declined receipt of any options which would have otherwise been granted to him under the Transaction Systems Architects, Inc. 1996 Stock Option Plan, and in lieu thereof received an amendment to prior stock option agreements to permit all of his previously-granted options to purchase a total of 58,000 shares to continue to vest and to extend the exercise period for such options notwithstanding Mr. Duman's resignation as an employee of the Company, such extension being subject to Mr. Duman's continuing to serve as a director of the Company. On May 5, 2000, at an exercise price of \$16.688 per share, each of Messrs. Kever, Fendley, Alexander, and Noell were granted an option for 6,250 shares of Common Stock from the Transaction Systems Architects, Inc. 2000 Non-employee Director Stock Option Plan, said Plan having been approved by the Company's Board of Directors in May 2000 and under which a total of 25,000 shares of Common Stock are authorized. All options granted under the Company's 2000 Non-employee Director Stock Option Plan vest 33¹/₃% per year at the end of each of three years.

Information Regarding Stock Ownership

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of December 31, 2000, by (i) each of the Company's directors, (ii) each of the executive officers named in the Summary Compensation Table below, (iii) all executive officers and directors of the Company as a group, and (iv) each person known to the Company who beneficially owns more than 5% of the outstanding shares of its Common Stock. Because the 1,778,429 shares of

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Common Stock and 1,410,942 Exchangeable Shares issued pursuant to the acquisition of MessagingDirect Ltd. were issued after December 31, 2000, they are not reflected in the percentages included in this table.

Beneficial Owner	Number of Shares	Percent
Waddell & Reed, Financial, Inc.(1) 466 Lexington Avenue, New York, NY 10017	3,437,300	10.4
Massachusetts Financial Services Co.(2) 500 Boylston Street, Boston, MA 02116	2,941,802	8.9
Jurika & Voyles, L.P.(3) 825 Duportail Road, Wayne, PA 19087	2,001,580	6.0
Brown Capital Management, Inc.(4) 1201 N. Calvert Street, Baltimore, MD 21202	1,683,700	5.1
Charles E. Noell, III(5)	14,325	*
Jim D. Kever(6)	20,800	*
Larry G. Fendley(7)	24,700	*
Gregory J. Duman(8)	148,994	*
Roger K. Alexander(9)	0	*
William E. Fisher(10)(11)	525,000	1.6
David C. Russell(10)(12)	112,579	*
Anthony J. Parkinson(10)(13)	46,166	*
Edward H. Mangold(10)(14)	187,008	*
Mark R. Vipond(10)(15)	121,583	*
All Directors and Executive Officers as a Group (15 persons)(16)	1,452,081	4.4

*

Less than 1% of the outstanding Common Stock.

(1) The number of shares in the table is based on a Schedule 13F dated September 30, 2000, which indicates that Waddell & Reed, Financial, Inc. and related entities have sole investment discretion and sole voting power over all of these shares.

(2) The number of shares in the table is based on a Schedule 13F dated September 30, 2000, which indicates that Massachusetts Financial Services Co. has sole investment discretion over 2,941,802, sole voting power over 2,298,882 shares, and no voting power over 642,920 shares.

(3)

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The number of shares in the table is based on a Schedule 13F dated September 30, 2000.

- (4) The number of shares in this table is based on a Schedule 13F filed on November 15, 2000, which indicates that Brown Capital Management, Inc. has sole investment discretion over 1,683,700 shares, sole voting power over 1,152,700 shares, and shared voting power over 531,000 shares.
- (5) Includes 1,650 shares owned by Mr. Noell's children. Mr. Noell's business mailing address is 12680 High Bluff Road, Number 200, San Diego, CA 92130-2002.
- (6) Consists of 20,800 shares issuable upon exercise of options. Mr. Keever's business mailing address is Two Lakeview Place, 15 Century Boulevard, Suite 600, Nashville, TN 37214.
- (7) Includes 20,800 shares issuable upon exercise of options and 600 shares owned by Mr. Fendley's wife. Mr. Fendley's business mailing address is 635 Southwest 42nd Street, Paris, TX 75460.
- (8) Includes 33,916 shares issuable upon exercise of options and 1,800 owned by Mr. Duman's children. Mr. Duman's business mailing address is 13710 FNB Parkway, Suite 300, Omaha, NE 68154.

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- (9) Mr. Alexander's business mailing address is Candlewick House, 120 Cannon Street, London, England EC4N 6AS.
- (10) The business address is 224 South 108th Avenue, Omaha, NE 68154.
- (11) Includes 450,000 owned by a corporation of which Mr. Fisher is a principal shareholder. Also includes 75,000 shares issuable upon exercise of options.
- (12) Includes 84,073 shares issuable upon exercise of options.
- (13) Includes 31,166 shares issuable upon exercise of options.
- (14) Includes 67,416 shares issuable upon exercise of options and 35,000 shares owned by Mr. Mangold's wife.
- (15) Includes 67,416 shares issuable upon exercise of options and 5,000 shares owned by Mr. Vipond's wife.
- (16) Includes 584,538 shares issuable upon exercise of options.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules of the Securities and Exchange Commission (the "Commission") require the Company's directors, certain officers, and beneficial owners of more than ten percent of the Common Stock to file reports of their ownership and changes in ownership of Common Stock with the Commission. Personnel of the Company generally prepare these reports on behalf of its executive officers on the basis of information obtained from them and review the forms submitted to the Company by its non-employee directors and beneficial owners of more than ten percent of the Common Stock. Based on such information, the Company believes that all reports required by Section 16(a) of the Exchange Act to be filed by its directors and officers during or with respect to the last fiscal year were filed on time, except that David C. Russell, Jim D. Keever, Larry G. Fendley, Charles E. Noell, III, and Roger K. Alexander each failed to timely file a Form 5 to report one transaction. Messrs. Russell, Keever, Fendley, Noell, and Alexander each subsequently filed

appropriate forms.

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Information Regarding Executive Officer Compensation

The following table sets forth certain compensation information as to the Chief Executive Officer ("CEO") and the four highest paid executive officers (collectively, the "Named Executive Officers") of the Company for each of the years ended September 30, 1998, 1999, and 2000:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation (\$)(2)	Long-Term Compensation Awards	
		Salary(\$)	Bonus (\$)(1)		Securities Underlying Options(#)(3)	All Other Compensation (\$)(4)(5)
William E. Fisher	2000	206,250	69,833	59,340	125,000	4,153
Chairman and	1999	250,000	231,489		18,000	4,153
Chief Executive Officer	1998	233,333	255,768		None	4,153
David C. Russell	2000	241,250	118,714		130,000	4,153
President	1999	172,500	130,799		18,000	4,153
	1998	150,000	154,255		None	4,153
Edward H. Mangold	2000	160,000	174,562		27,000	4,153
Senior Vice President	1999	145,000	212,542		9,000	4,153
	1998	96,791	234,618		None	4,698
Anthony J. Parkinson	2000	100,000	334,570		27,000	4,153
Senior Vice President	1999	100,000	340,628		9,000	4,153
	1998	65,000	454,178		None	153
Mark R. Vipond	2000	157,500	93,737		27,000	4,153
Senior Vice President	1999	130,000	82,877		9,000	4,528
	1998	100,000	106,024		None	4,403

- (1) The Company's executive officers are eligible for quarterly cash bonuses. Such bonuses are generally based upon achievement of corporate, geographic or product performance objectives including sales, pretax profit, backlog, and cash flow.
- (2) Includes incremental amounts paid by the Company for personal use of the Company Airplane.
- (3) Includes options granted from the Company's 1999, 1996, and 1994 Stock Option Plans.
- (4) Includes contributions made to the Company's retirement plans. For fiscal 2000, employer contributions to the Company's 401(k) Retirement Plan were \$4,000 each for Messrs. Fisher, Russell, Parkinson, Mangold, and Vipond.
- (5) Each of Messrs. Fisher, Russell, Parkinson, Mangold, and Vipond, and certain other executive officers are a party to an agreement pursuant to which each has agreed not to compete with the Company for so long as he or she is a stockholder of the Company. At the election of the Company, the non-compete agreement may remain in effect for two years after termination of employment (even if he or she is no longer a stockholder) if the Company pays him or her for two years. No amounts were paid in fiscal 2000 under this arrangement.

Stock Options

The following table sets forth information concerning the grant of stock options to each of the Named Executive Officers in fiscal 2000:

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted(#)(1)	Percent of Total Options Granted to Employees in Fiscal Year	Individual Grants		
			Exercise Price (\$/sh)	Expiration Date	Grant Date Present Value\$(2)
William E. Fisher	125,000	10.43%	25.9380	2/22/10	1,782,388
David C. Russell	5,000	0.42%	25.0625	10/19/09	68,890
	58,753	4.90%	25.9380	2/22/10	840,515
	23,837	1.99%	27.2500	3/29/10	367,286
	42,410	3.54%	18.5630	8/8/10	432,785
Edward H. Mangold	2,000	.17%	25.0625	10/19/09	27,556
	25,000	2.09%	25.9380	2/22/10	356,478
Anthony J. Parkinson	2,000	.17%	25.0625	10/19/09	27,556
	25,000	2.09%	25.9380	2/22/10	356,478
Mark R. Vipond	2,000	.17%	25.0625	10/19/09	27,556
	25,000	2.09%	25.9380	2/22/10	356,478

- (1) The options referred to in this table were granted under the Company's 1994, 1996, and 1999 Stock Option Plans. Vesting of the options granted under the 1999 Stock Option Plan occurs on an annual pro rata basis over a term of three years from the date of grant. Vesting of options granted under the 1994 and 1996 Plans occurs on a monthly and annual pro rata basis over a term of 48 months from the grant date, respectively.
- (2) Grant date present value is determined using a modified Black-Scholes option-pricing model. The estimated values under the model are based on several assumptions, including a weighted-average expected volatility of 38%, a weighted-average risk-free rate of return of 6.2%, no dividend yield and expected option lives of 6.0 years and may not be indicative of actual value. The actual gain, if any, the option holder may realize will equal the excess of the actual market price of the stock on the date the option is exercised over the exercise price. There is no assurance that the value that may be realized by the option holder will be at or near the value estimated by the modified Black-Scholes model.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Shares Acquired on Exercise(#)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)	Value of Unexercised in-the-Money Options Fiscal Year-End(\$)
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Name	Value Realized(\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)		
		Exercisable/Unexercisable	Exercisable/Unexercisable(1)	
William E. Fisher	0	0	81,000/162,000	0/0
David C. Russell	0	0	81,985/166,015	0/0
Edward H. Mangold	0	0	66,750/54,250	0/0
Anthony J. Parkinson	10,000	179,729	30,500/45,500	0/0
Mark R. Vipond	0	0	12,500/21,500	0/0

- (1) None of the options are "In-the-Money" options at the end of the last fiscal year, since the fair market value (closing bid price per the NASDAQ National Market) of the Common Stock at the end of the last fiscal year (\$16.313 per share on September 29, 2000) did not exceed the exercise price of the options.

Contemplated Stock Option Exchange Offer

Presently, the vast majority of TSA's outstanding employee stock options have exercise prices greater than the current market price of TSA Common Stock. Stock options have been a significant component of employee compensation at TSA as at many other technology companies. To address the diminution in the value of TSA's outstanding employee stock options due to the decline in market value of the Company's Common Stock and the resulting adverse impact on employee incentive, TSA is contemplating making the following opportunity available to employees who hold options under the Company's 1994, 1996, and 1999 Stock Option Plans ("Existing Options"). The employees would be given the opportunity to exchange Existing Options for replacement options ("Replacement Options") to purchase the same number of common shares as under the Existing Options. The Replacement Options would be issued six months and one day after the effective date of the exchange ("New Grant Date"), provided that on the New Grant Date the person is eligible to receive options under the terms of the applicable stock option plan, which generally requires employment with the Company at the time of grant. The exercise price on the Replacement Options would be the closing bid price for TSA Common Stock on the New Grant Date. It is presently contemplated that most of the Replacement Options would become exercisable at a rate of 1/18th of the underlying shares after each month commencing with the New Grant Date, which is a faster rate than the Existing Options. All Existing Options exchanged by the holders would be cancelled. Each Replacement Option would be issued under the same option plan as the Existing Option for which it is exchanged. Under the terms of the Company's 1994, 1996, and 1999 Stock Option Plans, the number of shares underlying cancelled Existing Options would become available for issuance of options under the plans as if the cancelled Existing Options had never been granted. The number of shares underlying cancelled Existing Options would be reserved for issuance under the Replacement Options to be granted to the previous holder of the Existing Options. Accordingly, none of the shares that are the subject of the proposal to increase the number of shares for which options may be granted under the 1999 Stock Option Plan would be used in the exchange offer and instead would be available for additional new grants. See, "Approval of Amendment to the 1999 Stock Option Plan." Certain highly compensated employees of the Company who have recently been granted options by the Company and all directors of the Company would be ineligible to participate in the contemplated exchange offer. The Company's intent is that the contemplated exchange offer would not be a repricing for purposes of FASB Interpretation No. 44 and that the granting of the Replacement Options would generate no compensation expense. THIS IS NOT AN OFFER TO ANY OPTION HOLDERS. IF THE COMPANY MAKES THE PRESENTLY CONTEMPLATED EXCHANGE OFFER, IT WOULD BE MADE

THROUGH AN EXCHANGE OFFER STATEMENT AND WOULD BE SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THE EXCHANGE OFFER STATEMENT. ELIGIBLE OPTION HOLDERS SHOULD READ THE EXCHANGE OFFER STATEMENT WHEN IT IS AVAILABLE BECAUSE IT WOULD CONTAIN IMPORTANT INFORMATION. ELIGIBLE OPTION HOLDERS WOULD BE PROVIDED THE EXCHANGE OFFER STATEMENT BY THE COMPANY AND IT WOULD ALSO BE AVAILABLE FOR FREE ON THE WEBSITE OF THE SECURITIES AND EXCHANGE COMMISSION AT WWW.SEC.GOV.

Severance Compensation Agreements

The Company has entered into Severance Compensation Agreements (the "Agreements") with 9 of its executive officers, including each of the Named Executive Officers, and 8 other employees. Generally, the Agreements provide that if there is a Change in Control (as defined in the Agreements) of the Company and the employee's employment with the Company is subsequently terminated within two years after the Change in Control other than as a result of death, Retirement (as defined in the Agreements), termination by the Company for Cause (as defined in the Agreements), or the employee's decision to terminate employment other than for Good Reason (as defined in the Agreements), the employee will be entitled to receive from the Company certain payments and benefits. These payments and benefits include (i) a lump-sum payment (the

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"Severance Amount") equal to, in the case of Messrs. Fisher and Russell, and Douglas Parr and David P. Stokes, two times the average Compensation (as defined in the Agreements) of the employee during the two most recent fiscal years of the Company ending prior to the Date of Termination (as defined in the Agreements), or in the case of the other executive officers (including Messrs. Mangold, Vipond, and Parkinson) and employees who entered into Severance Compensation Agreements with the Company, one times the average Compensation of the employee during the two most recent fiscal years of the Company ending prior to the Date of Termination; (ii) earned but unpaid base salary through the Date of Termination; (iii) a quarterly incentive award for the current fiscal quarter prorated through the Date of Termination equal to the greater of the quarterly incentive award made to the employee for the most recent fiscal quarter ending prior to the Date of Termination or the average quarterly incentive award made to the employee for the most recent three fiscal years ending prior to the Date of Termination; (iv) interest on the amounts described in (i), (ii) and (iii); and (v) unless the employee's termination of employment is the result of the employee's Disability (as defined in the Agreements), continued participation at the Company's cost in employee benefit plans available to Company employees generally in which the employee was participating, until the earlier of receiving equivalent benefits from a subsequent employer or two years from the Date of Termination.

For purposes of determining the Severance Amount referred to above, compensation generally includes compensation includable in the gross income of the employee, but excluding amounts realized on the exercise of non-qualified stock options, amounts realized from the sale of stock acquired under an incentive stock option or an employee stock purchase plan, and compensation deferrals made pursuant to any plan or arrangement maintained by the Company. In no event will the Severance Amount be less than two times the employee's annual rate of base salary at the higher of the annual rate in effect (i) immediately prior to the Date of Termination or (ii) on the date six months prior to the Date of Termination.

Under the Agreements, in the event of a Change in Control, unvested awards and benefits (other than stock options or awards) allocated to the employee under Incentive Plans shall fully vest and become payable in cash.

The Agreements provide that in the event any payment by the Company would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the employee with respect to such excise tax, then the employee will be entitled to an additional payment in an amount such that, after payment by the employee of all taxes, the employee is in the same after-tax position as if no excise tax had been imposed.

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Under the Agreements, the Company agrees to indemnify the employee to the fullest extent permitted by law if the employee is a party or threatened to be made a party to any action, suit or proceeding in which the employee is involved by reason of the fact that the employee is or was a director or officer of the Company, by reason of any action taken by him or of any action on his part while acting as director or officer of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise. The Company also agrees to obtain and maintain a directors' and officers' liability insurance policy covering the employee.

The Agreements terminate upon the earlier of (i) termination of employment for any reason prior to a Change in Control and (ii) three years after the date of a Change in Control.

For a complete copy of the Severance Agreements, see Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

CEO's Employment Agreement and Loan

Subsequent to fiscal 2000, the Company reached an agreement with Mr. Fisher, the Company's Chief Executive Officer ("CEO"), on an employment and incentive compensation package (the "Compensation Package"). The Compensation Package provides an annual base salary of \$200,000 per fiscal year and for the company to loan Mr. Fisher a total of \$3,000,000. The loan bears interest at 6.35% and is due in the first quarter of 2004. The loan and accrued interest are subject to forgiveness in the event of certain changes in control, death, or termination without cause; one-half of the principal and interest is subject to forgiveness if Mr. Fisher remains employed with the Company for the three-year term of the Compensation Package, and one-half of the principal and interest is subject to forgiveness in the event the closing bid for the Company's Common Stock reaches certain price targets. As of September 30, 2000, the Company had advanced Mr. Fisher \$2,000,000. Subsequent to September 30, 2000, the Company advanced Mr. Fisher the remaining \$1,000,000. No compensation expense related to the Compensation Package was recorded in fiscal 2000.

Certain Transactions

The Company and KFS Management, Inc. are parties to agreements pursuant to which KFS Management, Inc. leased two aircraft to the Company on a non-exclusive basis for business use by the Company. The lease agreements terminated on December 31, 1999. Mr. Fisher and

his brother-in-law are the sole stockholders of KFS Management, Inc. During fiscal 2000, the Company paid KFS Management, Inc. a total of \$65,000 under the leases agreements. During fiscal 2000, the Company also reimbursed KFS Management, Inc. a total of \$8,507 for aircraft-related supplies and the services of its employees.

REPORT OF THE AUDIT COMMITTEE

The Company has a standing Audit Committee (the "Audit Committee") of the Board of Directors. The Audit Committee consists of Messrs. Fendley, Keever and Noell, who are independent (as defined in Rule 4200(a)(14) of the National Association of Securities Dealers' listing standards). The Audit Committee operates pursuant to a charter (the "Audit Committee Charter") approved and adopted by the Board. The Audit Committee Charter is attached as Exhibit A. The Audit Committee, on behalf of the Board, oversees the Company's financial reporting process. In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited financial statements and the footnotes thereto in the Company's fiscal 2000 Annual Report to Shareholders and discussed with management the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of the disclosures in the financial statements. The Audit Committee held two meetings in fiscal 2000.

The Company's outside independent public accountants, Arthur Andersen LLP, are responsible for expressing an opinion on the conformity of the Company's audited financial statements, in all material respects, to accounting principles generally accepted in the United States. The Audit Committee reviewed and discussed with the independent public accountants their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed by the Audit Committee with the Company's independent public accountants under Statement on Auditing Standards 90. The Company's independent public accountants have expressed the opinion that the Company's audited financial statements conform, in all material respects, to accounting principles generally accepted in the United States. The independent public accountants have full and free access to the Audit Committee.

The Audit Committee discussed with the Company's independent public accountants their independence from management and the Company, and received from them the written disclosures and the letter concerning the independent public accountants' independence required by the Independence Standards Board Standard No. 1.

The Audit Committee discussed with the Company's independent public accountants the overall scope and plans for their audit. The Audit Committee met with the independent public accountants to discuss the results of their audit, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the year ended September 30, 2000, for filing with the Securities and Exchange Commission. The Audit Committee also recommended to the Board of Directors the selection of Arthur Andersen LLP to serve as the Company's independent public accountants for fiscal 2001.

MEMBERS OF THE AUDIT COMMITTEE

Larry G. Fendley
Jim D. Keever
Charles E. Noell, III

REPORT OF THE COMPENSATION COMMITTEE

The Company has a standing Compensation Committee (the "Compensation Committee") of the Board of Directors. The Compensation Committee consists of Messrs. Alexander, Keever, and Noell. All issues relating to executive officer compensation are addressed by the Compensation Committee. The Compensation Committee approves base salary and incentive compensation for all executive officers. During fiscal 2000, the Compensation Committee held one meeting.

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The components of the Company's executive compensation program consist of base salaries and annual incentive plans. The Company's compensation program is intended to provide executive officers with overall levels of compensation opportunity that are competitive within the software and computer services industries, as well as within a broader spectrum of companies of comparable size and complexity. The Company's compensation program is structured and administered to support the Company's business mission and generate favorable returns for its stockholders.

Base Salary. Each executive officer's base salary, except for Mr. Fisher's salary, is based on the recommendation of Mr. Fisher to the Compensation Committee. Such recommendations are derived primarily through a comparison of industry and competitive labor markets for executive officer services from surveys conducted by Culpepper and Associates, Inc. ("Culpepper"). In comparison to those surveys, base salaries recommended are slightly lower than the average of other comparably-sized software companies. Other factors in formulating base salary recommendations include the level of an executive's compensation in relation to other executives in the Company with the same, more and less responsibilities, the performance of the particular executive's business unit or department in relation to established strategic plans, the Company's operating budget for the year and the overall performance of the Company.

Incentive Compensation Plan. For each executive officer, an incentive compensation plan is established at the beginning of each fiscal year in connection with the Company's strategic plans and annual operating budgets. Mr. Fisher provides recommendations to the Compensation Committee for incentive compensation for each executive officer, exclusive of himself. The level of incentive compensation recommended for each executive officer is derived through a comparison of industry and competitive labor markets from surveys conducted by Culpepper. In comparison to those surveys, the incentive compensation recommended approximates the average of other comparably-sized software companies. Under these incentive compensation plans, an executive's potential incentive payment is related to the Company's profit attainment, ending backlog, cash flow, and/or the financial performance of an executive's division or department. Because the Company's profit, backlog, cash flow, and divisional financial performance, all being substantial factors in the calculation of incentive compensation, did not meet the Company's expectations in fiscal 2000, bonuses for each of the Company's Named Executive Officers did not meet target levels for fiscal 2000.

CEO Compensation. Compensation for Mr. Fisher, who, exclusive of the period between November 1999 and May 2000, served as the Company's Chief Executive Officer during fiscal 2000, was based on the same criteria used for executive officers generally, as described above. In addition to his base salary, in fiscal 2000 Mr. Fisher was eligible to earn 50% of his base salary if the Company attained 100% of its targets. As compared to industry surveys conducted by Culpepper, Mr. Fisher's base salary was approximately 64% lower than the average and his incentive compensation target for fiscal 2000 was approximately 76% lower than the average. Mr. Fisher's actual combined earnings for fiscal 2000 were approximately 69% less than the average. His maximum possible bonus for fiscal 2000 was 75% of his base salary if the Company exceeded its targets. For fiscal 2000, the Company did not achieve 100% of its targets and Mr. Fisher earned as a bonus 35% of his base salary.

In May 2000, Mr. Fisher returned to the office of CEO after having resigned the position in November 1999. The Compensation Committee then began discussions with Mr. Fisher to reach an agreement

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to secure his continued services as the Company's CEO to ensure the Company's leadership for a reasonable term. The discussions resulted in the Compensation Package described above in the section entitled "CEO's Employment Agreement and Loan."

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation over \$1,000,000 paid to the corporation's Chief Executive Officer and the four other most highly compensated executive officers. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. Other than pursuant to the Compensation Package, which is discussed within the section entitled "CEO's Employment Agreement and Loan," the Company has no current plan to pay any of its executive officers annual compensation over \$1,000,000 and it currently intends to structure the performance-based portion of the compensation of its other executive officers in a manner that complies with this statute.

MEMBERS OF THE COMPENSATION COMMITTEE

Roger K. Alexander
Jim D. Keever
Charles E. Noell, III

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Alexander, Keever, and Noell. None of these individuals was at any time during fiscal 2000, or at any other time, an officer or employee of the Company. No executive officer of the Company serves as a member of the

board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

Performance Graph

In accordance with Securities and Exchange Commission rules, the following table shows a line-graph presentation comparing cumulative stockholder return on an indexed basis with a broad equity market index and either a nationally-recognized industry standard or an index of peer companies selected by the Company. The Company has selected the S&P 500 Index and the NASDAQ Computer & Data Processing Services ("C&DP") Index for comparison.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
AMONG TRANSACTION SYSTEMS ARCHITECTS, INC., THE S&P 500 INDEX
AND THE NASDAQ COMPUTER & DATA PROCESSING INDEX

Assumes \$100 invested on 9/30/95 in the Company's Common Stock (at a closing price on that date of \$13.373 per share, adjusted for a two-for-one stock split effected in the form of a 100% stock dividend in July 1996), the S&P 500 Index and the NASDAQ C&DP Index.

2. APPROVAL OF AMENDMENT TO THE 1999 STOCK OPTION PLAN

In January 2001, the Board of Directors adopted, subject to the approval of the stockholders of the Company, an amendment to the 1999 Stock Option Plan to increase the number of shares of Common Stock for which options may be granted under the 1999 Stock Option Plan from 2,000,000 to 3,000,000. At the Annual Meeting of Stockholders held on February 23, 1999, the stockholders approved the issuance of

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1,000,000 shares of the Company's Common Stock under the 1999 Stock Option Plan. At the last Annual Meeting, held on February 22, 2000, the stockholders approved an additional 1,000,000 shares of the Company's Common Stock under the 1999 Stock Option Plan. Of the 2,000,000 shares so approved under the 1999 Stock Option Plan, only 24,045 shares remain available for new grants as of December 27, 2000. The addition of another 1,000,000 shares, bringing the total authorized under the 1999 Stock Option Plan to 3,000,000 shares, is the only proposed amendment to 1999 Stock Option Plan. None of the 1,000,000 shares that are the subject of this proposed amendment would be used for the contemplated exchange of options discussed above under "Contemplated Stock Option Exchange Offer." Under the terms of the Company's 1994, 1996, and 1999 Stock Option Plans, the number of shares underlying cancelled Existing Options would become available for issuance of options under the plans as if the cancelled Existing Options had never been granted and thus such shares would become available for issuance pursuant to the Replacement Options. Accordingly, if the proposed amendment is approved, all of the 1,000,000 shares will be available for additional new grants.

As of December 31, 2000, the Company has granted under the 1999 Stock Option Plan options to purchase an aggregate of 1,395,622 shares to all employees, including all current officers who are not executive officers, as a group. As of December 31, 2000, the Company has granted under the 1999 Stock Option Plan options to purchase an aggregate of 563,732 shares to all current executive officers of the Company as a group. As of December 31, 2000, the Company has granted under the 1999 Stock Option Plan options to purchase 117,410 shares, 69,023 shares, 36,000 shares, and 97,918 shares to Messrs. Russell, Mangold, Parkinson, and Vipond, respectively. As of December 31, 2000, the Company has granted under the 1999 Stock Option Plan options to purchase an aggregate of 143,000 shares to Mr. Fisher, all of which options granted to Mr. Fisher under the 1999 Stock Option Plan were cancelled prior to December 31, 2000. As of December 31, 2000, the Company has granted under the 1999 Stock Option Plan options to purchase an aggregate of 23,000 shares to Mr. Duman. No options have been granted under the 1999 Stock Option Plan to any other current directors who are not executive officers.

The last sale price of the Company's Common Stock on January 11, 2001, as reported by the NASDAQ National Market, was \$12.875 per share.

The following summary description of the 1999 Stock Option Plan, as proposed to be amended, is qualified in its entirety by reference to the full text of the 1999 Stock Option Plan, which is set forth as Appendix B to this Proxy Statement.

The 1999 Stock Option Plan allows the Compensation Committee (or such other committee of the Board as may be directed by the Board) (the "Committee") to provide for awards for employees of the Company and its subsidiaries from time to time, in its sole discretion, of stock options (including incentive stock options qualifying under Section 422 of the Code and non-qualified stock options which do not so qualify), that the Committee determines to be consistent with the objectives and limitations of the 1999 Stock Option Plan. All employees of the Company or any subsidiary of the Company who are actively and customarily employed for 20 hours or more per week are eligible to participate in the 1999 Stock Option Plan, including employees who are members of the Board of Directors. As of December 31, 2000, the Company and its subsidiaries have approximately 1,896 eligible employees. The 1999 Stock Option Plan will expire, unless earlier terminated, on February 22, 2009.

If the proposed amendment to the 1999 Stock Option Plan is approved by the stockholders, an aggregate of 3,000,000 shares of Common Stock will be available under the 1999 Stock Option Plan, with 1,975,955 of these shares being subject to options previously granted under the 1999 Stock Option

Plan as of December 27, 2000. The shares subject to grants that terminate unexercised will be available for future grants. The total number of shares of Common Stock for which options may be granted to any "covered employee" within the meaning of Code Section 162(m) during any twelve-month period will not exceed 118,000 in the aggregate, subject to adjustment as provided below. Adjustments will be made in the number of shares subject to existing or future awards under the 1999 Stock Option Plan and in the exercise price of an outstanding award in the event that the outstanding shares of the Company's Common Stock are increased or decreased or changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, without the receipt of consideration by the Company, by reason of a reorganization, merger or consolidation, recapitalization, reclassification, stock split, reverse stock split, split-up, combination or exchange of shares, or declaration of any dividends payable in Common Stock. In the event of (i) any offer or proposal to holders of the Company's Common Stock relating to the acquisition of their shares, including, without limitation, through purchase, merger or otherwise or (ii) any transaction generally relating to the acquisition of substantially all of the assets or business of the Company, or (iii) the dissolution or liquidation of the Company, the Committee may make such adjustment as it deems equitable in respect of outstanding options and the shares of Common Stock for which options may be granted, including without limitation the revision, cancellation or termination of any outstanding options or the change, conversion or exchange of the shares of the Company's Common Stock under outstanding options (and of the shares of the Company's Common Stock for which options may be granted under the 1999 Stock Option Plan) into or for securities or other property of another corporation. Additional limitations apply to the aggregate fair market value of shares granted under incentive stock options that are first exercisable during any calendar year in order to comply with Section 422 of the Code.

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The exercise price of each option is determined by the Committee at the time the option is awarded. In the case of incentive stock options, the option exercise price may not be less than 100 percent of the fair market value of the Company's Common Stock on the date the option is granted. In the case of non-qualified stock options, the option exercise price may be equal to, more than or less than the fair market value of the Company's Common Stock on the date the option is granted.

Payment of the option exercise price may be made in cash, by certified check, or if authorized by the Committee, by delivery of shares of Common Stock having a fair market value on the date of delivery equal to the aggregate exercise price of the shares of Common Stock as to which the option is being exercised, or if authorized by the Committee, by authorizing the Company to withhold from the total number of shares of Common Stock to be acquired upon exercise of an option that number of shares of Common Stock having an aggregate fair market value (as of the date the withholding is effected) that would equal the aggregate exercise price of the shares of Common Stock as to which the option is being exercised, or by any combination of such methods of payment or by any other method of payment that may be authorized by the Committee.

Option grants under the 1999 Stock Option Plan are not transferable otherwise than by will or the laws of descent and distribution.

The 1999 Stock Option Plan is administered by the Committee. All members of the Committee are non-employee directors.

The Committee has authority to, within the limits of the 1999 Stock Option Plan, (i) determine the employees to whom options will be granted, (ii) designate an option as an incentive stock option or a non-qualified stock option, (iii) establish the number of shares of Common Stock that may be purchased under each option and the option exercise price, (iv) determine the time and the conditions subject to which options may be exercised in whole or in part, (v) fix the term of all options granted under the 1999 Stock Option Plan, provided that the term of any incentive stock option may not exceed ten years from the date of grant, (vi) determine how withholding taxes related to exercises are paid, (vii) establish any other terms, restrictions or conditions applicable to any option not inconsistent with the provisions of the

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1999 Stock Option Plan, and (viii) take any other actions deemed necessary or advisable for the administration of the 1999 Stock Option Plan. The Committee will have the power to interpret the 1999 Stock Option Plan and may adopt, amend and rescind rules, not inconsistent with the provisions of the 1999 Stock Option Plan, as it deems advisable.

The Board of Directors may amend the 1999 Stock Option Plan from time to time as it deems desirable in its sole discretion without approval of the stockholders of the Company, except to the extent stockholder approval is required by Rule 16b-3 of the Exchange Act, applicable NASDAQ National Market or other stock exchange rules, applicable Code provisions, or other applicable laws or regulations. Amendments made without stockholder approval could increase the cost to the Company under the 1999 Stock Option Plan although the amount of such cost is not determinable. The Board of Directors may terminate the 1999 Stock Option Plan at any time in its sole discretion. Any termination or amendment of the 1999 Stock Option Plan may not alter or impair any rights or obligations under any option previously granted in any material adverse way without the affected participant's consent.

Within the limitations of the 1999 Stock Option Plan, the Committee may modify, extend or renew outstanding options or accept the cancellation of outstanding options for the granting of new options in substitution therefore, provided that, except for certain adjustments, (i) no modification of an option may, without the consent of the participant, alter or impair any rights or obligations under any option previously granted in any material adverse way without the affected participant's consent and (ii) the exercise price of outstanding options may not be altered, amended or modified.

Under current law, the United States federal income tax consequences to participants and the Company of options granted under the 1999 Stock Option Plan would generally be as set forth in the following summary. This summary does not purport to be a complete analysis of all potential United States federal income tax or other tax consequences relevant to employees and the Company or to describe tax consequences based upon particular circumstances. In addition, the summary does not discuss the income tax laws of any municipality, state or foreign country in which the participant may reside and to which the participant may be subject.

A participant receiving a non-qualified stock option under the 1999 Stock Option Plan does not recognize taxable income on the date of grant of the option. However, the participant must generally recognize ordinary income when a non-qualified stock option is exercised equal to the difference between the option exercise price and the fair market value, on the date of exercise, of the shares of the Company's Common Stock. If a holder of a non-qualified stock option pays the exercise price, in full or in part, with previously-acquired shares of the Company's Common Stock, special rules will apply. Special rules also apply if the shares acquired upon exercise of a non-qualified stock option are subject to vesting, or are subject to certain restrictions on resale under federal securities laws applicable to directors, executive officers or 10% shareholders. Any compensation includable in the gross income of the participant in respect of a non-qualified stock option will be subject to appropriate federal employment taxes.

A participant who is granted an incentive stock option will not recognize taxable income either on the date of grant or on the date of its timely exercise, although the spread on exercise of an incentive stock option would be an item of tax preference income potentially subject to the alternative minimum tax. Upon disposition of the shares of the Company's Common Stock acquired upon exercise of an incentive stock option, capital gain or loss would be recognized in an amount equal to the difference between the sales price and the option exercise price, provided the participant has not disposed of the shares of the Company's Common Stock within two years of the date of grant of the option nor within one year from the date of exercise. When a participant exercises an incentive stock option, the Company will not generally be entitled to a federal income tax deduction. However, if the participant disposes of stock acquired through exercise of such an option before meeting the required holding periods, the participant must generally recognize ordinary income in the amount of the difference between the option

exercise price and the fair market value, on the date of exercise, of the shares of the Company's Common Stock, except that if the disposition is a sale and the sale price is lower than the value of the shares on the exercise date, the lower sale price generally governs the amount of ordinary income. The Company would generally be entitled to a federal income tax deduction equal to the amount of ordinary income recognized by the participant. The balance of the gain, if any, will be capital gain taxed at the applicable capital gains rate. If the holder of an incentive stock option pays the exercise price, in full or in part, with previously-acquired shares of the Company's Common Stock, special rules will apply.

The Company will not be entitled to a federal income tax deduction upon the grant of an option under the 1999 Stock Option Plan. However, when a participant exercises a non-qualified stock option, the Company will generally be entitled to a federal income tax deduction in the amount of the difference between the option exercise price and the fair market value of the shares of the Company's Common Stock on the date of exercise. The payment by the participant to the Company of the exercise price has no tax consequences to the Company.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO THE 1999 STOCK OPTION PLAN.

3. APPROVAL OF AMENDMENT TO THE 1999 EMPLOYEE STOCK PURCHASE PLAN

In December 2000, the Board of Directors adopted, subject to approval of the stockholders of the Company, an amendment to the Company's 1999 Employee Stock Purchase Plan to increase the number of shares of Common Stock that may be purchased by participating employees of the Company from 250,000 to 750,000. At the Annual Meeting of Stockholders held on February 23, 1999, the Company's Stockholders approved the 1999 Employee Stock Purchase Plan (the "ESPP"). Of the initial 250,000 shares of Common Stock authorized under the ESPP 77,606 authorized shares remain available for sale as of December 31, 2000. After the next scheduled quarterly purchase of shares under the ESPP on January 31, 2001, at which time it is anticipated that approximately 40,000 shares will be sold to the Company's employees, there will be an insufficient number of authorized shares available with which to continue the ESPP. As of December 31, 2000, the ESPP had 743 active participants. The increase in the number of shares of Common Stock that may be purchased under the ESPP by participating employees from 250,000 to 750,000 is the only proposed amendment to the ESPP.

As of December 31, 2000, the Company has sold under the ESPP an aggregate of 169,734 shares to employees, including all current officers who are not executive officers, as a group. As of December 31, 2000, the Company sold an aggregate of 2,660 shares to all current executive officers of the Company as a group. As of December 31, 2000, the Company sold 1,621 shares to Mr. Russell. As of December 31, 2000, there are approximately 1,700 employees eligible to participate in the ESPP.

The last sale price of the Company's Common Stock on January 11, 2001, as reported by the NASDAQ National Market, was \$12.875 per share.

The following summary description of the ESPP, as proposed to be amended, is qualified in its entirety by reference to the full text of the 1999 ESPP, which is set forth as Appendix C to this Proxy Statement.

The ESPP became effective April 1, 1999. The ESPP terminates on April 30, 2004, unless terminated sooner by the Company's Board of Directors.